

Committee on Ways and Means

The Estate Tax and Extension of Tax Relief Act of 2006

Short Summary

PERMANENT ESTATE AND GIFT TAX RELIEF

The *Estate Tax and Extension of Tax Relief Act of 2006* provides **permanent** estate and gift tax relief. Under current law, the estate tax relief provided in the *Economic Growth and Tax Relief Reconciliation Act of 2001* (EGTRRA) will end in 2010. Unless Congress acts, in 2011 the estate tax exemption will drop to \$1 million per person and the maximum estate tax rate will increase to 55 percent.

Highlights include:

1. Reunification of the estate, gift and generation skipping transfer taxes, giving individuals greater flexibility to make estate planning decisions during life.
2. Increase of the estate and gift tax exemption amount to \$5 million per person (indexed for inflation). The \$5 million per person exemption amount is fully phased-in effective January 1, 2015.
3. Reduced estate and gift tax rates. Amounts up to \$25 million (indexed for inflation) will be subject to tax as the capital gains tax rate (currently 15 percent, set to increase to 20 percent in 2011 unless extended). Amounts in excess of \$25 million (indexed for inflation) or more will be subject to a phased-in reduced rate of tax of 30 percent. The 30 percent tax rate is fully phased-in effective January 1, 2015.
4. Portable spousal estate and gift tax exclusion to allow married couples to take full advantage of the \$5 million per person exemption amount (indexed for inflation) by carrying over any unused exemption to the surviving spouse, subject to the phase-in of the exemption amount.

EXTENSION AND MODIFICATION OF CERTAIN PROVISIONS

The *Estate Tax and Extension of Tax Relief Act of 2006* extends through 2007, and in certain circumstances modifies, provisions which either expired at the end of 2005 or will expire at the end of 2006.

1. Above-the-line deduction for higher education expenses.
2. New Markets Tax Credit.
3. State and local sales tax deduction.
4. Research and Development (R&D) Tax Credit.

5. Extension and expansion of the Work Opportunity Tax Credit (WOTC) for hiring individuals who face barriers to employment – and combination of the credit with the Welfare-to-Work Tax Credit in 2007.
6. Welfare-to-Work Tax Credit for hiring individuals who have received public assistance for an extended period of time – and combination with the WOTC in 2007.
7. Treating combat pay as earned income for purposes of the earned income credit calculation.
8. Authority to issue Qualified Zone Academy Bonds (QZABs) for school modernization, equipment and teacher training in high-poverty areas.
9. Above-the-line deduction for out-of-pocket teacher classroom expenses.
10. Expensing of brownfields remediation costs. In addition to the extension, the definition of a contaminated site is expanded to include sites contaminated by petroleum products.
11. Tax incentives to revitalize the District of Columbia.
12. Incentives for business activity on Indian reservations.
13. Fifteen-year depreciation for leasehold improvements.
14. Fifteen-year depreciation for restaurant improvements and new restaurant properties.
15. Transfer of rum excise taxes to Puerto Rico and the Virgin Islands.
16. Excise tax for enforcing mental health parity rules.
17. Enhanced charitable deduction for scientific property and computer donations.
18. Availability of Archer MSAs (Medical Savings Accounts).
19. Suspension of limit on percentage depletion for oil and gas produced from marginal wells.
20. Creation of the economic development credit for American Samoa.
21. Modification of the New York Liberty Zone incentives to create up to \$1.75 billion of credits to be used to finance qualifying transportation projects in the City of New York.
22. Extension of Gulf Opportunity Zone bonus depreciation to certain highly damaged areas.
23. Authority for IRS undercover operations.
24. Authority for the IRS to disclose certain tax information for certain purposes.

OTHER TAX PROVISIONS

The *Estate Tax and Extension of Tax Relief Act of 2006* also contains a package of other tax provisions designed to provide additional tax relief and certainty to taxpayers.

1. Manufacturing deduction for U.S. businesses with branches in Puerto Rico.
2. Refundable credit with respect to certain long-term unused AMT credits.
3. Mine safety tax incentives.
4. Reform of the IRS Whistleblower Program.
5. Increase and expansion of the frivolous tax submission penalty.
6. Addition of the meningococcal and human papillomavirus vaccines to the list of taxable vaccines.
7. Permanency of certain provisions enacted in the *Tax Increase Prevention and Reconciliation Act of 2005*.
8. Modification of the treatment of shipping within the Great Lakes to ensure that vessel operators in this region can qualify for the alternative tonnage tax regime.
9. Modification of the mortgage revenue bond rules to make affordable mortgages more accessible to veterans.
10. Capital gains exclusion on sales of homes by non-military intelligence officers who are stationed abroad.
11. Elimination of the reference price phase-out provisions for the coke and coke gas production tax credit. The credit remains subject to the per-facility production caps.
12. Special rollover rules for certain Federal judicial officers who sell property to comply with certain conflict-of-interest requirements.
13. Itemized deduction for the cost of premiums for mortgage insurance on qualified personal residences.
14. Modification of the refund rules with respect to kerosene used for certain exempt aviation purposes.
15. Deduction for qualified timber capital gains.
16. Tax credit bonds to finance certain rural development projects.
17. Deduction for the cost of travel expenses incurred by an employee on behalf of a spouse accompanying the employee on business-related-travel.
18. Technical corrections to recent tax legislation.

OTHER PROVISIONS

1. Modification of the Abandoned Mine Land (AML) Program.
2. Increase in the Federal minimum wage.